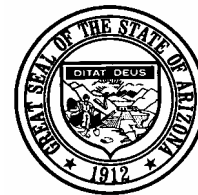


# ARIZONA

## TAXNEWS



Janet Napolitano, Governor

J. Elliott Hibbs, Director

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## ARIZONA TAX AMNESTY ENDS

Governor Janet Napolitano announced on November 7, 2003 the results of the Arizona Tax Amnesty Program and acknowledged the excellent job done by the employees of the Department of Revenue.

Over \$73 million has been reported to the department under amnesty. \$45.3 million of this has already been paid. The goal was \$25 million.

About 74% of the money came from corporations filing back taxes and resolving audit appeals to the department's satisfaction. Roughly \$22 million of the \$73+ million was money the department would have collected through existing audit programs this year meaning the net gain under

amnesty is \$51 million. \$4 million of this goes to the cities and counties as revenue sharing leaving a net gain to this year's general fund of \$47 million.

The department managed to accomplish these results with direct expenses (advertising, printing, postage, telephones, and temporary employees) of less than \$75,000. This is a phenomenal return on investment of \$1,000 for each \$1 spent.

We ask any of you who have clients that took advantage of this amnesty to remind them to make sure they pay any balance due by May 1, 2004. Failure to do so makes them ineligible for the relief provided by the amnesty program.

### ARIZONA DEPARTMENT OF REVENUE MISSION STATEMENT

The purpose of the Arizona Department of Revenue is to promote voluntary compliance with all tax obligations through fair administration, firm enforcement, and prompt and courteous service in a manner that justifies the highest degree of public confidence in our efficiency and integrity.

#### WE'RE ON THE WEB!

The Arizona TaxNews can be viewed on our Internet website:

[www.revenue.state.az.us](http://www.revenue.state.az.us)

## CITY OF MARICOPA ADOPTS MODEL CITY TAX CODE AND ENTERS STATE ADMINISTRATION PROGRAM

**Effective January 1, 2004:** On November 4, 2003 the Mayor and City Council of the City of Maricopa passed ordinance number 03-04. Ordinance 03-04 adopts the Model City Tax Code for the City of Maricopa. Ordinance 03-04 provides that as of January 1, 2004, the City of Maricopa will participate in the State Collection and Administration Program.

The following reporting codes have been set up for Maricopa:

Privilege Tax	MP	2.00%
Use Tax	MP2	2.00%
Hotel/Motel		
(Additional Tax)	MP3	2.00%
Metalliferous Mining	MP5	0.10%

The City of Maricopa taxes the following classifications:

Advertising; Amusements;  
Construction Contracting; Job  
Printing; Manufactured Buildings;  
Timbering and other extraction;  
Mining; Publishing; Hotels; Rental of  
real property; Rental of Tangible  
personal property; Restaurants and  
bars; Retail; Telecommunications;  
Transporting for hire; Utilities and Use  
Tax.

**\*\*\*REMINDER\*\*\***

**FOR NON-EFT TPT FILERS**

**To avoid a delinquency, postmark your November 2003 TPT return no later than December 26, 2003 or deliver to DOR no later than December 30, 2003.**

The October Summary of General Fund Revenues and the October Individual Income Tax Receipts were unavailable at press time. Please check [www.revenue.state.az.us](http://www.revenue.state.az.us) for the current numbers.

**TOP REJECT CODES FOR E-FILE**

Error Code	Description	# of Occurrences
203	Incomplete direct deposit/debit information	21,995
907	Invalid E-Signature	8,276
200	Non-numeric value in numeric field.	8,151
235	Phone number format.	2,187
900	Primary SSN was used more than once on E-Filed returns.	1,060
213	Date of return is invalid or a future date.	744
207	Date of direct debit/EFW cannot be later than April 15	614
901	Secondary SSN was used as secondary SSN more than once	478
205	Spouse last name, first name and SSN are required on MFJ	248

**TAX CALENDAR**

DECEMBER 2003

Due Date		For Period Ending
15	Income Tax Returns: Form 120: Corporation Form 140: Individual Form 141: Fiduciary Form 165: Partnership Form 99T: Exempt Organization	8/31/03
15	Form 120: Corporation with Automatic Extension	2/28/03
15	Form 120S: S Corporation	9/30/03
15	Form 99: Exempt Organization Annual Information Return	7/31/03
15	Form 120ES: Estimated Tax Payment, Corporation First Installment Second Installment Third Installment Fourth Installment	8/31/04 6/30/04 3/31/04 12/31/03
22	Form TPT-1: Transaction Privilege Tax: November Monthly Filers	11/30/03
22	Bingo: Financial Reports	11/30/03
22	Luxury Tax: Various Forms	11/30/03
25	State Holiday - Christmas	All State Offices Closed
26	EFT Form TPT-1 and Payment: Transaction Privilege Tax: November Monthly Filers	11/30/03

***Withholding Tax Payment Information:***

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **exceeds** \$1,500 the employer must make its Arizona withholding payments to the Department of Revenue at the same time as the employer is required to make federal withholding deposits.

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **does not exceed** \$1,500 the employer must make its Arizona withholding payments to the department on a quarterly basis.

The *Arizona TaxNews* is a publication of the Arizona Department of Revenue. Information contained herein is of a general nature and is not designed to address complex issues in detail. Taxpayers requiring information concerning a specific tax matter should contact the appropriate office. This newsletter is available in an alternative format upon request. Subscription information may be obtained from the Publications Unit at 602-716-6797 or toll free from area codes 520 & 928, 1-877-863-0655.

## RESOLVING E-FILE ERRORS

The Department of Revenue will begin accepting E-file returns on Friday, January 16, 2004.

This is a good time to review the most common errors that cause a reject. The top reject codes are listed on page 2. Some remedies to common rejects are listed below:

1. Incomplete direct deposit/debit information  
A bank account number is missing or may be incomplete.
  - Double check entries on the state return to ensure that all account numbers and routing numbers are complete and accurate.
  - Make certain if you select direct deposit/debit for Federal that your client wants the same accounts used for the State. This is particularly important when there is tax due on both Federal and State. The DOR has experienced some taxpayer concerns because the direct debit information flows through to the Arizona return. Therefore, if your client does not want direct debit, it is important to remove the bank account or indicator for Arizona.
2. Invalid E-Signature
  - DOR prohibits the use of E-signatures on State-Only Returns.

- If you receive this, simply remove the E-Signature indicator (usually found at the Federal Level on the return) on State-Only transmissions, then re-transmit the return as a State-Only transmission. Make sure that your software offers a State-Only transmission and you maintain a signed AZ8453 in your file.
3. Direct debit date
    - Debits cannot be scheduled later than April 15 on a return that is filed prior to the April deadline.
    - It is a simple fix; change the date to April 15 or earlier and re-transmit as State-Only.

Remember that all electronic filers must notify DOR within 30 days of all business changes:

- Mailing or e-mail address
- Telephone or fax numbers
- Contact person

You can E-mail changes to [efile@revenue.state.az.us](mailto:efile@revenue.state.az.us), fax: (602)716-7986, or Mail to: Arizona Department of Revenue, Electronic Filing Program, 1600 W Monroe – Room 610, Phoenix AZ 85007.

## 2003 ARIZONA LEGISLATIVE SUMMARY

The 2003 Legislative Summary is a brief summary of the tax-related bills that were enacted by the Arizona Legislature and approved by the Governor. Over the next few months, the *Arizona TaxNews* will feature Summaries by tax type. This month: Income Tax.

The general effective date is September 18, 2003

### **HB 2057 (Internal Revenue Code Conformity)**

This is the annual bill which conforms the Arizona statutory definition of the Internal Revenue Code (IRC) for the 2003 tax year to the federal IRC as of January 1, 2003, including provisions that became effective in 2002, but excluding any provisions that become effective after January 1, 2003.

### **HB 2058 (income tax credit review schedule)**

Laws 2002, Chapter 238 established the Committee for a review of various corporate and individual income tax credits that are set forth in an income tax credit review schedule.

- Requires income tax credits that are recommended by the Committee to be retained or amended to be returned to the Committee's schedule and be reviewed in five years.
- Reassigns income tax credits reviewed in 2002 for review in 2007 as follows:

Individual and corporate defense contracting (A.R.S. § 43-1077, 43-1078, 43-1165 & 43-1166).

Individual and corporate military reuse zone (A.R.S. § 43-1079 & 43-1167).

Individual and corporate environmental technology facility (A.R.S. § 43-1080 & 43-1169).

- Requires the Committee to provide a copy of its report to the Arizona State Library, Archives and Public Records.

A.R.S. § 43-1076 allows an individual income tax credit for placing recycling equipment in service in the amount of ten percent of the cost of installing recycling equipment. The Committee reviewed the recycling equipment income tax credit in its December meeting and discussed the repeal of this credit. A similar credit existed for corporate taxpayers, but this

*(Continued on page 5)*

## TIME RUNNING SHORT FOR 2003 TAX MOVES

IR-2003-130, Nov. 10, 2003

WASHINGTON The Internal Revenue Service today reminded taxpayers they have less than eight weeks to make their final financial moves for the 2003 tax year.

Taxpayers can take the first step toward advance tax planning by reviewing tax law changes featured on the IRS Web site, [www.irs.gov](http://www.irs.gov). A little advance planning now could save taxpayers time and perhaps even money later.

For many families, tax planning means locating the IRS notice for their Advance Child Tax Credit. For teachers, it means keeping those receipts for school supplies they purchase with their own money. For investors, it may mean deciding which stocks should be sold or purchased.

This summer, nearly 24 million taxpayers received an Advance Child Tax Credit of up to \$400 per child because the credit was increased to \$1,000 per child from \$600 per child. People got part of their Child Tax Credit in advance this summer, so they must subtract that amount when figuring the credit when they complete their 2003 taxes.

Taxpayers should have kept their IRS letter (Notice 1319) that notified them of the amount of the credit they were to receive. Forgot the advance payment amount? Check [www.irs.gov](http://www.irs.gov) under the Individuals section for the online tool, Where's My Advance Child Tax Credit?

Also, taxpayers who do not receive an Advance Child Tax Credit check by Dec. 31 may claim the increased credit on their 2003 tax return. Again, [IRS.gov](http://IRS.gov) provides details on child tax credit eligibility.

End-of-the-year planning may be useful for educators who may claim up to \$250 for out-of-pocket classroom expenses, students who may deduct interest on college loans and spouses who make alimony payments. These items are among the tax deductions that can reduce taxable income.

Some taxpayers may benefit more by itemizing their deductions on Schedule A of Form 1040. Taxpayers

should consider using Schedule A if their itemized deductions exceed the amount of the standard deductions. On average, approximately one-third of the nation's taxpayers itemize their deductions.

For the 2003 tax year, the standard deduction is \$4,750 for taxpayers filing as single or married filing separately, \$7,000 for individuals filing as head of household and \$9,500 for taxpayers filing as married filing jointly.

Among the common deductions itemized on Schedule A are state and local income taxes, real estate taxes and mortgage interest. Charitable donations also are deductible on Schedule A and taxpayers should keep a record of their contributions. Certain medical expenses, such as laser surgery or obesity weight loss programs, are deductible if the total medical expenses exceed 7.5 percent of gross income.

Also, for the 2003 tax year, taxpayers may make gifts of up to \$11,000 per person and exclude the amount from the gift tax. Those receiving the gift are not required to pay taxes on the amount received.

Tax-free flexible spending accounts also can lower taxable income amounts and the IRS recently ruled medical spending accounts can be used to purchase non-prescription medication. Again, taxpayers should keep receipts.

The maximum tax rate for most capital gains taken after May 5, 2003 has been reduced to 15 percent for most individuals and generally 5 percent for low-income individuals. Dividends also are taxed at a maximum rate of 15 percent and generally 5 percent for low-income individuals.

In most cases, the expenditures must take place during the tax year in order to be deductible. However, taxpayers do have time next year to contribute to their Individual Retirement Accounts. The maximum IRA contribution for the 2003 tax year is \$3,000.

Taxpayers who are age 50 or over by Dec. 31 can contribute \$3,500.

Taxpayers should consider seeking out additional information either through [IRS.gov](http://IRS.gov) or a tax professional.

### **2003 Arizona Legislative Update**

(Continued from page 3)

was eliminated in 1999 when the corporate rate was reduced.

HB 2058 repeals retroactive to tax years beginning January 1, 2003, the recycling equipment income tax credit but allows a taxpayer to continue to carry forward existing amounts. Makes technical and conforming changes to statutory provisions that refer to the recycling credit.

#### **HB 2059 (2003 tax corrections act)**

HB 2059 is the annual bill that makes technical, conforming and clarifying changes to the Arizona tax statutes.

#### **HB 2396 (school tax credit; reporting requirements)**

The bill amends A.R.S. § 43-1089 (credit for contributions to school tuition organizations) to require a school tuition organization (STO) to file an annual report with the Department of Revenue, if the organization receives a voluntary cash contribution pursuant to subsection A of the statute. It amends A.R.S. § 43-1089.01 (credit for public school fees and contributions) to require a public school to file an annual report with the Department of Revenue, if the school receives a voluntary cash contribution pursuant to subsection A of the statute.

HB 2396 requires a STO or public school to submit this report to the department by February 28<sup>th</sup> of each year.

#### **HB 2421 (school tax credit; classroom instruction)**

HB 2421 amends A.R.S. § 43-1089-01 (credit for public school fees and contributions).

The bill adds a subsection that states that a public school site council or a charter school's principal, director or chief administrator determine how undesignated contributions received through the tax credit are used.

It also includes in the definition of "extracurricular activities" in-state or out-of-state competitive event trips, but excludes senior trips or recreational, amusement or tourist activities.

#### **HB 2444 (redevelopment area; financing, definition)**

An emergency measure that expands the definition of designated area by bringing it into conformity with federal law. The definition will include any area that is designated by state statute as an enterprise zone or any area designated by the U.S. Department of Housing and Urban Development as an empowerment zone or enterprise zone.

#### **SB1019 (wheels to work program; repeal)**

The Wheels to Work Program through the Department of Economic Security, Jobs Administration ended in fiscal year 2002 (legislative appropriation was line item vetoed).

This bill removes the wheels to work program statute (§ 46-142) and removes the individual and corporate tax credit for donating a motor vehicle to the program (§ 43-1090.01 & §43-1177).

## **RESCISSION OF ARIZONA TRANSACTION PRIVILEGE TAX RULING TPR 92-3**

As a result of various changes in statutes and case law, such as the enactment of A.R.S. § 42-5070(C) and the court decision in *Walden Books v. Arizona Department of Revenue*, 198 Ariz. 584 (App. 2000), Arizona Transaction Privilege Tax Ruling TPR 92-3 no longer represents department policy. Therefore, the department hereby rescinds TPR 92-3.

### **E-Mail Your Questions**

If you have a question that you cannot find the answer to, our Technical Assistance personnel may prove useful to you. We will gladly respond to any e-mail technical tax inquiry. All inquiries will be responded to within two working days.

E-mail your question to: [TaxpayerAssistance@revenue.state.az.us](mailto:TaxpayerAssistance@revenue.state.az.us)

In the interest of maintaining confidentiality, DOR cannot respond to inquiries that include a Social Security number, FEIN, TPT or W/H number, or other specific taxpayer identifiers.



## **NEW FORMS EFFECTIVE JANUARY 1, 2004**

In conjunction with Release One of BRITS, our new integrated tax system, in January, 2004, the Department of Revenue will be replacing existing TPT-1 forms with new ones. Although not radically different, the changes may require adjustments to current in-house software used by businesses and practitioners. The Department will be mailing new forms, prior to Release One, so that necessary changes can be made before the new forms are officially implemented. This mailing will highlight the differences between the old and new forms to facilitate software or accounting changes that may be necessary.

The new TPT-1 will be used for the December 2003, 4<sup>th</sup> Quarter 2003, and annual filers for 2003, all due January 20, 2004 or postmarked by January 25, 2004.

The new A1-QRT is in development and will be

ready for use with the 1<sup>st</sup> Quarter filing in 2004. New forms and instructions will be mailed in advance of implementation of the new forms, again, to facilitate any required changes to in-house programs.

The Department has also revised the JT-1 Joint Tax Application. The new application will be available in January and can be downloaded from the DOR website [www.revenue.state.az.us](http://www.revenue.state.az.us).

The Department is also prepared to support bulk E-filing for businesses through our new website for online filing and new technological improvements, [www.AzTaxes.gov](http://www.AzTaxes.gov). If you are interested in bulk E-filing for TPT or Withholding Tax returns, please contact Tom Waters at [waterst@revenue.state.az.us](mailto:waterst@revenue.state.az.us), or by calling 602-716-6283 or 520-628-6341.